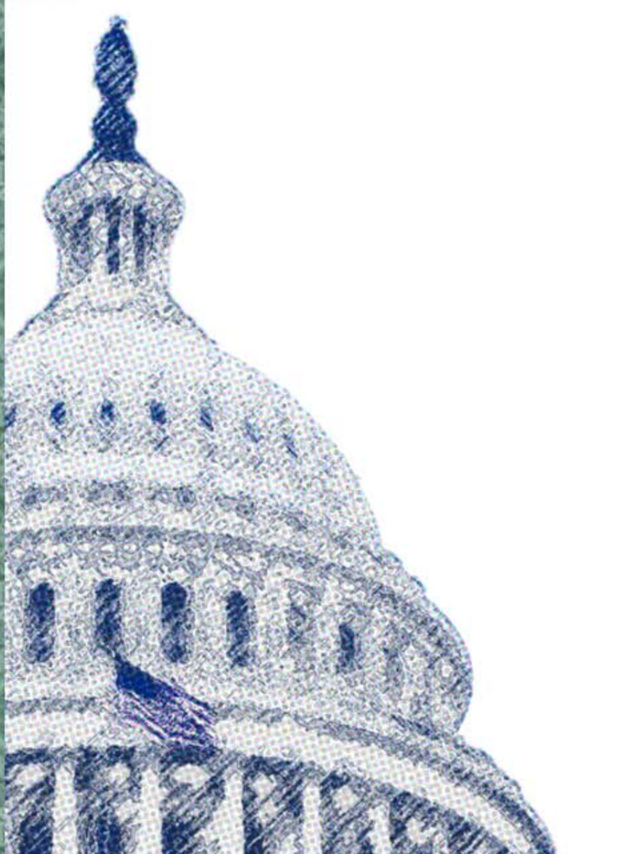
109th Congress
1st Session

Senate Budget Committee August Recess Packet



July 28, 2005
Prepared by the
Senate Budget Committee
budget.senate.gov/republican

United States Senate
COMMITTEE ON THE BUDGET
WASHINGTON, DC 20510-6100

July 28, 2005

Dear Republican Colleague,

As you prepare to head home for the August congressional recess, I thought the following information on the economy, the budget, the deficit and the reconciliation process would be helpful.

As indicated by the Office of Management and Budget's FY2006 Mid-Session Review, the short-term deficit is declining as the economic and tax relief policies put in place by the President and Congress have spurred growth in the economy and increased revenue for the government.

However, our long-term deficit problems still remain. Mandatory spending on entitlement programs is growing year after year, and threatens our economic stability down the road. We must take a hard look at mandatory spending reforms for the sake of future generations.

One way of reducing spending is the budget reconciliation process, which will get underway in September. The Budget Resolution has tasked key committees with finding ways to save nearly $35 billion over the next five fiscal years and reducing the tax burden on American families and businesses so that the economy can continue to grow.

If you have any questions regarding the information in this packet, or would like additional information on any of the topics covered, please contact my communications staff at 224-6011.

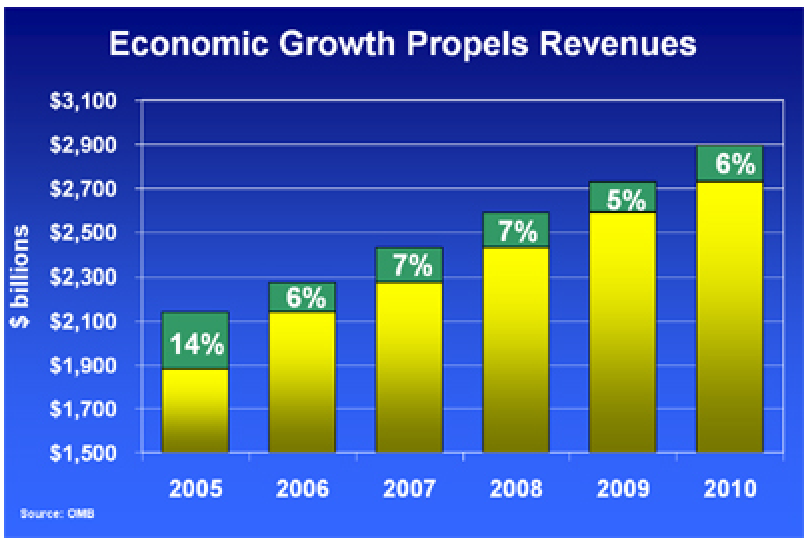
Sincerely,

Judd Gregg
Chairman

Lower Deficit Projections Show that Pro-Growth Economic Policies are Working

- ✓ On July 13th, the Office of Management and Budget reported in its Fiscal Year 2006 Mid-Session Review that the FY05 budget deficit is projected to be $94 billion less than the President's budget estimated in February. At $333 billion, or 2.7 percent of GDP, the latest deficit estimate for 2005 would be smaller than the deficits in 15 of the last 25 years as a percentage of GDP.

- ✓ This decline in the short-term deficit can be attributed to higher-than-anticipated tax receipts, demonstrating that the tax relief measures of 2001-2003 and other economic policies put in place by Congress and the President are working. Allowing families and businesses to keep more of what they earn has spurred growth in the economy, created 3.7 million jobs since May 2003, and resulted in increased revenues for the federal government. Data from the U.S. Treasury Department show that federal tax receipts are up 14 percent this year compared to last year.



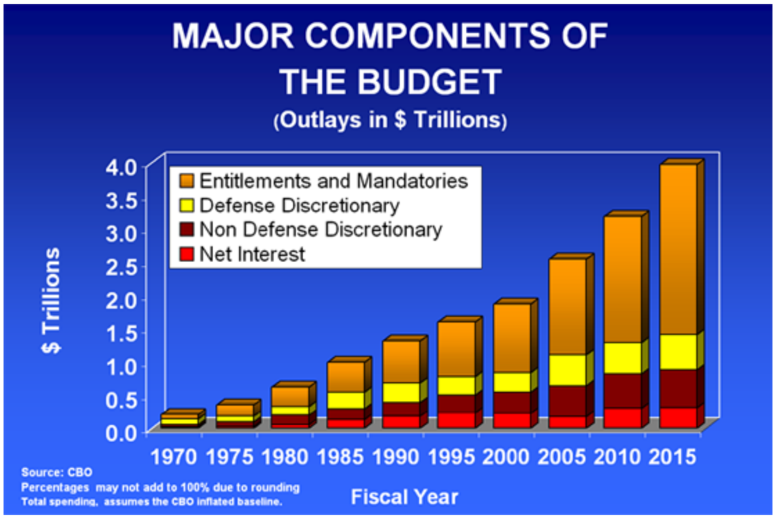
- ✓ In addition, real GDP grew 3.89 percent in the first quarter of 2005 – the 14^{th} consecutive quarter of growth following the recession and the ninth consecutive quarter of growth above 3 percent. Unemployment rates are at their lowest levels since 2001, and are lower than the decade averages for the 1970s, 1980s, and 1990s. Manufacturing industrial production is up 4 percent over the past year, and homeownership rates are at record highs.

- ✓ We are now back on the right track to sharply reduce the short-term deficit over the next several years, as long as we keep the tax burden low and maintain discipline over non-security discretionary spending. Last year, non-security discretionary spending growth was held to 2 percent – compared to 15 percent in President Clinton's last budget, and down from the 2001-2005 average of 6.4 percent. In this year's Budget Resolution, the cap on non-security discretionary spending was reduced, for the first time since 1997, below 1 percent. While we are making good progress on the appropriations process this year, Congress needs to adhere to the budget parameters set by the Budget Resolution, and stay the course.

The Next Step: Reining in Mandatory Spending

- ✓ A serious public policy problem is long-term liabilities – apparent promises that the federal government has already made. Most of these pledges fall under one of three programs – Social Security, Medicare and Medicaid. Social Security and Medicare are on the verge of being overwhelmed by the largest generation in our nation's history, the Baby Boom generation, which begins retiring in 2008. The unchecked rise in health care costs has caused Medicaid spending to mushroom. These programs represented more than half of all federal spending last year. But in just ten years they will balloon to two-thirds of the entire federal budget.

- ✓ Officials from the General Accountability Office estimate that our nation's unfunded promises over the next 75 years will total $44 trillion. Post-World War II average federal spending is 20 percent of GDP. But by 2050, the Congressional Budget Office estimates that Social Security, Medicare and Medicaid spending alone could require spending equivalent to 26 percent of GDP.



- ✓ This year, for the first time since 1997, Congress is working to rein in mandatory spending. The Budget Resolution passed in April contains budget reconciliation language directing eight Senate and eight House authorizing committees to pare back mandatory spending on entitlement programs under their jurisdictions, which will result in savings of nearly $35 billion over five years. Those legislative proposals will be included in a reconciliation package this fall.

Senate Reconciliation Savings Instructions

Committees		Amount of Outlay Reduction Required	
Title	**Senate Committees**	**FY 2006**	**FY2006-2010**
I	Agriculture, Nutrition & Forestry	$173 million	$3 billion
II	Banking, Housing & Urban Affairs	$30 million	$470 million
III	Commerce, Science & Transport.	$10 million	$4.81 billion
IV	Energy & Natural Resources	---	$2.4 billion
V	Environment & Public Works	$4 million	$27 million
VI	Finance	---	$10 billion
VII	Health, Education, Labor, Pensions	$1.242 billion*	$13.651 billion
VIII	Judiciary	$60 million	$300 million

	Total 5-yr. savings		**$34.7 billion**

* can be in 2005 and/or 2006

Budget Reconciliation Fact Sheet

- ✓ The Budget Act of 1974 requires Congress to adopt at least one Budget Resolution each year. A key enforcement procedure that is sometimes, but not always, included in the Budget Resolution is *budget reconciliation.* The reconciliation process gives Congress the means to achieve revenue, mandatory spending and debt-limit levels consistent with the goals of the current Budget Resolution.

- ✓ The 2006 Budget Resolution set forth reconciliation instructions for savings of $34.7 billion over a five-year period (fiscal years 2006-2010). This is the first time since 1997 that Congress has used the reconciliation process to reduce mandatory spending.

- ✓ Since the Budget Act was enacted in 1974, Congress has passed 19 reconciliation bills. Sixteen were signed into law while three have been vetoed. Over the past 15 years, three reconciliation bills have been enacted: the 1990 bill reduced the deficit by $324 billion, the 1993 bill reduced the deficit by $192 billion, and the 1997 bill reduced the deficit by $152 billion (all these bills covered a five-year period).

- ✓ This year, in addition to the spending reduction reconciliation bill, there will be two other reconciliation bills – a tax-relief reconciliation bill and a public debt reconciliation bill. The Senate Finance Committee and the House Ways and Means Committee may change laws to reduce the tax burden by up to $11 billion in fiscal year 2006 and by up to $70 billion during fiscal years 2006-2010. The same committees also are instructed to report a reconciliation bill that requires increases in the limit on statutory debt by $781 billion.

- ✓ The Budget Resolution instructed that for the spending reduction reconciliation bill, the committees must submit legislative text and report language to their respective Budget Committees by September 16, 2005. For the revenue reduction reconciliation bill, the Senate Finance Committee must submit legislation to the full Senate by September 23, 2005. The Finance Committee also must submit statutory debt limit legislation to the full Senate by September 30, 2005. The House Ways and Means Committee takes corresponding action in the House of Representatives.

- ✓ However, following the devastation of Hurricane Katrina and the Congress' focus on getting aid to the victims quickly, the Senate Budget Committee Chairman announced that his committee will report out of committee the spending reconciliation package on October 26, 2005. The delay will not jeopardize the privileged status of the reported reconciliation bill. The House Budget Committee Chairman also announced that his committee will report the spending reconciliation submissions the week of October 24, 2005.

- ✓ An important feature of the reconciliation procedure is that it cannot be filibustered in the Senate. Debate is limited to 20 hours in the Senate, all amendments must be germane, and it can pass that body with a simple majority of 51 votes. In addition, the Senate "Byrd Rule" points of order can be raised against extraneous provisions in the reconciliation bill that do not have a direct budgetary impact, requiring 60 votes to waive the point of order. The Byrd Rule also prohibits any changes in Social Security and prohibits any provisions that would increase the deficit in the years following the time period covered by the budget resolution (i.e. years after 2010).